

C. DUKES SCOTT
EXECUTIVE DIRECTOR

P.O. Box 11263
Columbia, S.C. 29211



Phone: (803) 737-0800
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DAN F. ARNETT
CHIEF OF STAFF

PROCESSED
0012805

176993

SA-1
Charlie-1
Joseph-1

December 7, 2005

VIA HAND DELIVERY

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

RECEIVED
2005 DEC -7 PM 4:36
SC PUBLIC SERVICE
COMMISSION

Re: Application of Utilities Services of South Carolina, Incorporated for
Adjustment of Rates and Charges and Modifications to Certain Terms and
Conditions for the Provision of Water and Sewer Service
Docket No. 2005-217-WS

Dear Mr. Terreni:

Enclosed for filing please find the original and sixteen (16) copies of the Settlement Agreement in the above referenced matter. The parties respectfully request that the Settlement Agreement be placed into the record in this docket. Please date stamp the extra copy enclosed and return it to me in the envelope provided.

Thank you very much for your assistance. Please let me know if you have any questions.

Sincerely,

Wendy B. Cartledge
Wendy B. Cartledge

WBC/pjm
Enclosures

cc: John M.S. Hoefer, Esquire

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2005-217-WS


RECEIVED
2005 DEC -7 PM 4:36
SC PUBLIC SERVICE
COMMISSION

IN RE:

Application of Utilities Services of)
SC, Inc. for Adjustment of Rates and)
Charges and Modifications to Certain)
Terms and Conditions for the) **CERTIFICATE OF SERVICE**
Provision of Water and Sewer Service)
_____)

This is to certify that I, Pamela McMullan, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **SETTLEMENT AGREEMENT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

John M.S. Hoefer, Esquire
Willoughby & Hoefer, P.A.
Post Office Box 8416
1022 Calhoun Street, Suite 302
Columbia, South Carolina 29201



Pamela McMullan

December 7, 2005
Columbia, South Carolina

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-217-WS

December 7, 2005

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2005 DEC -7 PM 4:36
SC PUBLIC SERVICE
COMMISSION

Application of Utilities Services of)	
South Carolina, Inc. for adjustment of)	SETTLEMENT AGREEMENT
rates and charges and modifications to)	
certain terms and conditions for the)	
provision of water and sewer service.)	
_____)	

This Settlement Agreement is made by and between the Office of Regulatory Staff ("ORS") and Utilities Services of South Carolina, Inc. ("USSC" or "the Company") (together referred to as the "Parties" or sometimes individually as "Party").

WHEREAS, the Company has prepared and filed an Application seeking an adjustment of its rates and charges and modifications to certain terms and conditions set out in its rate schedule for the provision of its water and sewer service;

WHEREAS, the above-captioned proceeding has been established by the South Carolina Public Service Commission ("Commission") pursuant to the procedure established in S.C. Code Ann. § 58-5-240 (Supp. 2004), and the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, since the filing of the Application, ORS has propounded numerous data requests to USSC and the Company has prepared in response thereto hundreds of pages of information related to the matters at issue in this docket and has provided those responses to ORS;

 WBC

WHEREAS, ORS has audited the books and records of the Company relative to the matters raised in the Application and, in connection therewith, has requested of and received from the Company additional documentation;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interests; and

WHEREAS, following those discussions the Parties have each determined that their interests and the public interest would be best served by stipulating to a comprehensive settlement of all issues pending in the above-captioned case under the terms and conditions set forth herein;

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms, which, if adopted by the Commission in its Order on the merits of this proceeding, will result in rates and terms and conditions of water and sewer service which are adequate, just, reasonable, nondiscriminatory, and supported by the evidence of record of this proceeding, and which will allow the Company the opportunity to earn a reasonable rate of return.

1. The Parties agree that no documentary evidence will be offered in the proceeding by the Parties other than: (1) the Application filed by the Company, (2) the exhibits to the testimony referenced in paragraph 2 hereinbelow, and (3) this Settlement Agreement with Exhibits "A"- "E" attached hereto.

2. The Parties stipulate and agree to include in the hearing record of this case the pre-filed testimony of Sharon G. Scott, Dawn M. Hipp and Bruce T. Haas (direct and rebuttal), including all exhibits attached to the pre-filed testimony, without objection, change, amendment, or cross-examination. Further, the parties agree to include in the hearing record of this case

without objection, change, amendment, or cross examination the testimony of witnesses Steven M. Lubertozzi, Converse A. Chellis, III and Dawn M. Hipp attached hereto and incorporated herein by this reference as Exhibits "A", "B" and "C".

3. The Parties stipulate and agree that the accounting exhibits prepared by ORS and attached hereto as Exhibit "D" fairly and reasonably set forth the Company's operating expenses, pro forma adjustments, depreciation rates, rate base, return on equity at a rate of 9.75%, revenue requirement, and rate of return on rate base.


4. The Parties stipulate and agree that the rate schedule attached hereto as Exhibit "E", including the rates and charges and terms and conditions of service, are fair, just, and reasonable. The Parties further stipulate and agree that the rates contained in said rate schedule are reasonably designed to allow the Company to provide service to its water and sewer customers at rates and terms and conditions of service that are fair, just and reasonable and the opportunity to recover the revenue required to earn a fair return on its investment..

5. ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (added by Act 175). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

... 'public interest' means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes the agreement reached between the Parties serves the public interest as defined above. The terms of this Settlement Agreement balance the concerns of the using public

 WSC

while preserving the financial integrity of the Company. ORS also believes the Settlement Agreement promotes economic development within the State of South Carolina. The Parties stipulate and agree to these findings.

6. In its Application, USSC has requested an increase in annual revenues of \$821,030. As a compromise to positions advanced by ORS and USSC, the Parties stipulate and agree to an increase in annual revenues of \$617,064, said increase to be based upon the adjustments reflected in the testimony of Sharon G. Scott and the return on equity stipulated to by the Parties in Paragraph 7 below.

7. The Company and ORS recognize the value of resolving this proceeding by settlement rather than by litigation and, therefore stipulate and agree for purposes of settlement in this case that a return on equity of 9.75% is just and reasonable under the specific circumstances of this case in the context of a comprehensive settlement.

8. The Parties further stipulate and agree that the stipulated testimony of record, the Application, and this Settlement Agreement conclusively demonstrate the following: (i) the proposed accounting and pro forma adjustments and depreciation rates shown on Exhibit "D" hereto are fair and reasonable and should be adopted by the Commission for ratemaking and reporting purposes; (ii) a return on common equity of 9.75 %, which yields a fair rate of return for the Company of 8.37%, and an annual increase in revenues of approximately \$617,064, is fair, just, and reasonable when considered as a part of this stipulation and settlement agreement in its entirety; (iii) USSC's services are adequate and being provided in accordance with the requirements set out in the Commission's rules and regulations pertaining to the provision of water sewer and sewer service, and (iv) USSC's rates as proposed in this Settlement Agreement are fairly designed to equitably and reasonably recover the revenue requirement and are just and

reasonable and should be adopted by the Commission for bills rendered by the Company on and after January 19, 2006.

9. The Parties further agree and stipulate that the rate schedule attached hereto as Exhibit "E", including the rates and charges and the terms and conditions set forth therein, are just and reasonable, reasonably designed, and should be approved and adopted by the Commission. The Parties agree that Commission approval of the rate schedule provision concerning the pass-through to customers of purchased water and bulk sewer treatment service charges is effective only with respect to current purchased water and bulk sewer treatment charges imposed upon the Company and that any future increases in the amounts of such charges to be passed-through to affected customers may only be placed into effect by the Company upon compliance with the procedure established by the Commission in its Order No. 2002-285, Docket No. 2001-164-W/S.

10. USSC agrees and stipulates that it will file with the Commission a performance bond for water service in the amount of \$350,000.00 and a performance bond for sewer service in the amount of \$150,000.00.

11. The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

Just WBC

12. The Parties agree that signing this Settlement Agreement will not constrain, inhibit, impair, or prejudice their arguments or positions held in other proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

13. This Settlement Agreement shall be interpreted according to South Carolina law.

14. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

 WBC

WE AGREE:

Representing the Office of Regulatory Staff

Wendy B. Cartledge

Wendy B. Cartledge, Esquire

Office of Regulatory Staff

Post Office Box 11263

1441 Main Street (Suite 300)

Columbia, SC 29211

Phone: (803) 737-0853

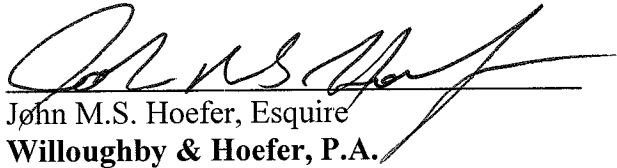
Fax: (803) 737-0800

E-mail: wcartle@regstaff.sc.gov

WBC

WE AGREE:

Representing Utilities Services of South Carolina, Inc.



John M.S. Hoefer, Esquire

Willoughby & Hoefer, P.A.

Post Office Box 8416

1022 Calhoun Street, Suite 302

Columbia, SC 29202-8416

Phone: (803) 252-3300

Fax: (803) 256-8062

E-mail: jhoefer@willoughbyhoefer.com

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-217-WS

IN RE:)
)
Application of Utilities Services of)
South Carolina, Inc. for adjustment of)
rates and charges and modifications to)
certain terms and conditions for the)
provision of water and sewer service.)
_____)

SETTLEMENT TESTIMONY
OF STEVEN M. LUBERTOZZI

1 **Q. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL AND**
2 **PROFESSIONAL BACKGROUND?**

3 A. I graduated from Indiana University in 1990, and I am a Certified Public
4 Accountant. I have been employed by Utilities, Inc., or "UI," since June of 2001.
5 Prior to joining Utilities, Inc., I had four years of public accounting/financial
6 analysis experience. In my work with Utilities, Inc. I have been involved in many
7 phases of rate-making in several regulatory jurisdictions. I have previously
8 testified before the South Carolina Public Service Commission and I have testified
9 before the Illinois Commerce Commission, the Indiana Utility Regulatory
10 Commission, the Florida Public Service Commission, the New Jersey Board of
11 Public Utilities, the North Carolina Utilities Commission, and the New Mexico
12 Public Regulation Commission. I am a member of the American Institute of
13 Certified Public Accountants. I have successfully completed the utility regulation

1 seminar sponsored by NARUC and other regulatory seminars sponsored by
2 PricewaterhouseCoopers and the American Water Works Association.

3 **Q. PLEASE EXPLAIN YOUR JOB RESPONSIBILITIES AT UTILITIES,**
4 **INC.**

5 A. My responsibilities encompass all aspects of state utility commission
6 regulation in sixteen of the seventeen states where UI subsidiaries operate
7 (Georgia does not regulate water and sewer utilities). These duties include
8 preparation of rate case applications, coordinating Commission audits, developing
9 and delivering testimony before state utility regulatory bodies and obtaining
10 approvals for territory expansions.

11 **Q. PLEASE DESCRIBE UTILITIES SERVICE OF SOUTH CAROLINA,**
12 **INC.?**

13 A. Utilities Services of South Carolina, Inc., or "USSC," is a wholly owned
14 subsidiary of UI. USSC was formed in 2002 for the purpose of acquiring the
15 assets of two South Carolina public utilities, Utilities of South Carolina, Inc., or
16 "USCI," and South Carolina Water and Sewer, LLC, or "SCWS." As the
17 Commission is aware, it approved these acquisitions on July 30, 2002 in its Order
18 Number 2002-533 in Docket Number 2002-124-W/S. USSC maintains an
19 operations and customer service office in West Columbia, South Carolina.
20 Customer payments, meter readings and service orders are processed from this
21 office. As is the case with the other UI operating subsidiaries in South Carolina
22 regulated by the Commission, administrative functions such as regulatory services,

1 management, accounting, human resources, and data processing are provided by
2 UI from its office in Northbrook, Illinois.

3 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

4 A. The purpose of my testimony is to provide support for the Settlement
5 Agreement entered into by the parties in the proceeding on December ___, 2005.
6 Specifically, I will be testifying as to the reasons why the 9.75% Return on Equity
7 ("ROE") agreed to by the parties is a reasonable ROE for the Company in the
8 context of a comprehensive settlement of this specific case.

9 **Q. IN YOUR OPINION, IS THE SETTLEMENT ROE OF 9.75%**
10 **SUPPORTABLE AS A REASONABLE ROE FOR THE COMPANY IN**
11 **THE CONTEXT OF A COMPREHENSIVE SETTLEMENT**
12 **AGREEMENT?**

13 A. Yes. In the context of the present settlement agreement, which disposes of
14 all issues in the case, rates set based upon a 9.75% ROE can provide investors the
15 opportunity to earn a reasonable return on our capital investment. The 9.75%
16 ROE is a return that would be acceptable to investors based on a comprehensive
17 settlement of all issues in this specific case. Based on my knowledge of capital
18 markets, my understanding of its expectations related to regulated returns in the
19 present economic context, and my monitoring of the returns granted to other
20 utilities in states where Utilities, Inc. subsidiaries operate and the reaction of the
21 capital market to those returns, I believe that 9.75% is a sufficient return which the
22 capital market would expect in the context of a comprehensive settlement.

1 **Q. WOULD YOU PLEASE EXPLAIN THE BASIS FOR YOUR OPINION?**

2 A. Yes. As a Director of Regulatory Affairs for the Company and other
3 subsidiaries of Utilities, Inc. providing water and sewer utility services to nearly
4 300,000 customers in seventeen different states, I have the opportunity to
5 participate in rate proceedings in a wide variety of regulatory environments.
6 Accordingly, I am able to understand how the regulatory environment in a given
7 state affects the level of investment in utilities.

8 **Q. WHY IS A SETTLEMENT IMPORANT TO CAPITAL MARKETS?**

9 A. Investors place great importance on rate case settlements. Whether rate
10 cases are settled or litigated figures prominently in analysts' reports and
11 evaluations of these cases and is a factor that strongly influences the capital
12 market's assessment of the regulatory climate a utility operates in. The capital
13 market sees settlements as an indication of a cooperative relationship between a
14 utility and its regulators and the other participants in the regulatory process.

15 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

16 A. Yes, it does.

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-217-WS

IN RE:)
)
Application of Utilities Services of)
South Carolina, Inc. for adjustment of)
rates and charges for the provision of water)
service.)
_____)

SETTLEMENT TESTIMONY
OF CONVERSE A. CHELLIS, III

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Converse A. Chellis, III. I am a Certified Public Accountant ("CPA") and a principal in and the Director of Litigation Services and Property Tax Services for Gamble Givens & Moody, LLC, a public accounting firm with offices in Charleston, Kiawah Island, and Summerville, South Carolina. My office is located at 133 East First North Street, Suite 9, Summerville, South Carolina 29483.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. In 1965, I graduated from The Citadel, The Military College of South Carolina with a bachelor's degree in business administration. I also have completed graduate level courses in accounting at the University of Georgia. In addition, I have had a minimum of forty (40) hours of continuing professional education ("CPE") each year since 1969, for a total of at least 1,440 total CPE hours.

Q. PLEASE DESCRIBE YOUR WORK HISTORY AND PROFESSIONAL EXPERIENCE PRIOR TO YOUR CURRENT POSITION.

1 A. Upon graduation from The Citadel in 1966, I served in the United States Air Force
2 and was assigned to the Auditor General's staff. In 1969, I joined Touche Ross (now
3 Deloitte and Touche) and was a senior accountant. I formed Chellis and Chellis in 1972, and
4 have been a name partner and managing partner in several accounting firms until 1998. In
5 1999, I merged my firm with Gamble Givens & Moody, where I am a principal and Director
6 of Litigation Services.

7 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ASSOCIATIONS?**

8 A. Yes. I am a member of the American Institute of Certified Public Accountants
9 ("AICPA"). From 1983-1985, I served on AICPA's continuing education executive
10 committee, and in 1985 I served on the AICPA council.

11 I am also a member of the South Carolina Association of Certified Public
12 Accountants ("SCACPA"). I served as Vice-President of the SCACPA's Coastal Chapter in
13 1977-78 and as President in 1978-79. In 1985 I served as the State President of the
14 SCACPA, having previously served on the state level as Vice-President, Secretary/Treasurer,
15 and Director. I have also been Chairman of the SCACPA's Committee on Continuing
16 Professional Education, Chairman and trustee for the SCACPA's educational fund, and
17 Chairman of the SCACPA's Committee on Cooperation with Governmental Agencies.

18 From 1986-1994, I was a member of the State Board of Accountancy, where I served
19 as Secretary/Treasurer from 1988-1990 and Chairman from 1990-1993.

20 From 1982-1998, I was a member of Accounting Firms Associates, inc. I am also a
21 past member of the American Society of Appraisers, and a current member of the American
22 College of Forensic Examiners. In addition, I am a past associate in the Municipal Finance

1 Officers Association, and I have held various offices in the National Association of
2 Accountants. I am also active in the peer review process, which involves examination of the
3 work of other accountants and accounting firms to assure that quality controls are being
4 applied in conformance with the Quality Control Standards adopted by the AICPA.

5 **Q. HAVE YOU EVER GIVEN ANY PRESENTATIONS TO OTHER ACCOUNTANTS**
6 **OR AUDITORS?**

7 A. Yes. I have been a speaker and an instructor for the accounting profession on a
8 number of accounting topics, including topics related to generally accepted accounting
9 principles ("GAAP").

10 **Q. HAVE YOU EVER BEEN QUALIFIED AS AN EXPERT WITNESS IN A SOUTH**
11 **CAROLINA COURT?**

12 A. Yes. I have been qualified as an expert witness in both the circuit and family courts
13 of South Carolina.

14 **Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?**

15 A. The purpose of my settlement testimony is to provide support for the recovery of the
16 investment of Utilities Services of South Carolina, Inc., which I will hereinafter refer to as
17 "USSC" or the "Company", in certain plant through the amortization of its cost as part of the
18 overall resolution of this case proposed by the parties and to support the adoption of the
19 Settlement Agreement as a whole.

20 **Q. IS THE AMORTIZATION OF PLANT INVESTMENT CONTEMPLATED BY THE**
21 **SETTLEMENT AGREEMENT APPROPRIATE?**

1 A. I believe the amortization is appropriate primarily because of the unique
2 circumstances of the case. As the Commission is aware, the Company's acquisition of the
3 assets of South Carolina Water & Sewer, LLC and Utilities of South Carolina, Inc. was found
4 by the Commission to be in the public interest in its order approving the transfer. In part, this
5 finding was based upon the fact that these two companies were operating in a state of
6 financial and regulatory distress. As Mr. Haas has noted in his testimony in this case, more
7 than half of the water systems were out of compliance with environmental standards at the
8 time of the transfer. The transfer approved in the Commission's order was also the result of
9 arms-length bargaining between unaffiliated entities. Following the transfer, customers were
10 beneficiaries of substantial upgrades in facilities and improvements in service. As the
11 testimony of Office of Regulatory Staff, or ORS, witness Dawn Hipp recognizes, the
12 Company has brought financial and operational stability to these distressed systems. The
13 authorized transfer did not involve the acquisition of simply one or two distressed systems
14 serving a small customer base. Rather, the authorized transfer involved the acquisition of
15 more than eighty water and four sewer systems serving approximately seven thousand
16 customers.

17 Given these unique facts, it is my opinion that the Company should be allowed to
18 recover the investment it actually made to acquire these assets – an investment that was
19 necessary for the Company to purchase the systems and thereafter make substantial
20 improvements to plant and facilities for the benefit of customers. Permitting USSC to
21 amortize the amount of its investment in plant and facilities that exceeded undepreciated
22 original cost or book value is appropriate where a regulatory body seeks to divide fairly the

1 costs associated with plant investment between a utility's investors and its customers. This
2 treatment has been accepted in 1 Robert L. Hahne, et al., *Accounting for Public Utilities*, §
3 4.04[2] at 4-12 (2005) and also in II Leonard L. Goodman *The Process of Ratemaking*, at
4 788 (1998). In the context of the comprehensive settlement proposed by the parties and
5 given the unusual circumstances of the case, acceptance of the amortization as a compromise
6 is appropriate.

7 **Q. IN YOUR OPINION, IS THE SETTLEMENT AGREEMENT A REASONABLE**
8 **MEANS OF RESOLVING THE ISSUES IN THIS CASE?**

9 A. Yes, it is.

10 **Q. WHAT IS THE BASIS FOR YOUR OPINION IN THIS REGARD?**

11 A. I have several reasons for believing that the Settlement Agreement is a reasonable
12 means by which to resolve the disputed issues in this case. First, one of the statutory duties
13 of the Office of Regulatory Staff is to facilitate the resolution of disputed issues involving
14 matters within the jurisdiction of the Commission. I think it incumbent upon the other
15 parties in cases before the Commission, which in this proceeding is USSC, to work with
16 ORS in good faith in an attempt to reach a settlement. I believe that the Settlement
17 Agreement reflects a good faith effort on the part of ORS and the Company to meet their
18 respective obligations in that regard.

19 Second, and as Mr. Lubertozzi mentions in his testimony in support of the Settlement
20 Agreement, capital markets recognize the value of settlements in ratemaking cases.
21 Additional investment resulting from favorable capital markets would be an enhancement to
22 economic development in South Carolina.

1 Third, a settlement brings the matter to an end without delay and the uncertainty of
2 further proceedings; this in turn permits ORS to focus its talents and resources on other
3 matters within its area of responsibility and permits the Company to focus upon the
4 continued improvement and expansion of its facilities and services for the benefit of its
5 customers.

6 Finally, the amortization of plant investment contemplated by the Settlement
7 Agreement is in the public interest because it recognizes the value customers receive from
8 investment in distressed utility systems and provides encouragement for investment in
9 distressed systems with reasonable assurance that the acquisition adjustment is recoverable
10 over time. The Commission has control over the process as it must approve any transfer of
11 assets prior to an acquisition occurring. Any public interest issues or fairness issues related
12 to the purchase of plant assets may be addressed by the Commission during the approval
13 process. This procedure provides protection against inflated or over priced affiliated
14 transactions.

15 In summary, I have the unique perspective in this case of having compiled the value
16 of the assets at transfer and having been informed of the improvements made to the system
17 by USSC. The customers are much better off than before with USSC owning and operating
18 these systems. The comprehensive settlement proposed by the parties in my opinion fairly
19 balances the interest of the customers and the Company. I therefore respectfully request that
20 the Commission approve the Settlement Agreement.

21 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?**

22 **A.** Yes it does.

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-217-WS

IN RE:)
)
Application of Utilities Services of)
South Carolina, Inc. for adjustment of)
rates and charges and modifications to)
certain terms and conditions for the)
provision of water and sewer service.)
_____)

SETTLEMENT TESTIMONY
OF DAWN M. HIPPI

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Dawn M. Hipp. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Program Specialist in the Water/Wastewater Department for the Office of Regulatory Staff ("ORS").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to provide a brief overview of the Settlement Agreement reached between ORS and Utilities Services of South Carolina, Inc. ("USSC") in this proceeding and to explain why this Settlement Agreement is in the public interest.

Q. PLEASE PROVIDE AN OVERVIEW OF THE SETTLEMENT AGREEMENT REACHED BY ALL PARTIES OF RECORD.

1 A. Following extensive discussions, the parties have each determined that their
2 interests, as well as the interest of the public would be best served by settling all
3 pending issues in this proceeding.

4 It is the position of ORS and the other parties of record in this docket that the
5 Settlement Agreement, as presented to this Commission, is a fair, reasonable and
6 full resolution to all issues in this proceeding. Further, the Settlement Agreement
7 represents the public interest as it preserves the balance referred to in S.C. Code §
8 58-4-10:

9 ... 'public interest' means a balancing of the following:

- 10
11 (1) Concerns of the using and consuming public with
12 respect to public utility services, regardless of the
13 class of customer;
14
15 (2) Economic development and job attraction and
16 retention in South Carolina; and
17
18 (3) Preservation of the financial integrity of the State's public utilities
19 and continued investment in and maintenance of utility facilities so
20 as to provide reliable and high quality utility services.
21

22 All parties agree that an increase in rates and charges is necessary for USSC to
23 provide its residential and commercial customers with safe and adequate water
24 and wastewater services. USSC has provided financial and operational stability to
25 the distressed water and sewer systems previously operated by Utilities of South
26 Carolina, Inc. and South Carolina Water & Sewer, LLC. While these customers
27 have benefited from the various upgrades and improvements made by USSC,
28 ORS had determined that USSC is currently operating under rates that do not
29 allow it to earn a fair return on its investment. The Settlement Agreement

1 provides a schedule of proposed rates, terms and conditions that are fair and
2 reasonable to both the customer and USSC and will allow USSC the opportunity
3 to earn a fair return on its investment. Specifically, USSC has agreed to reduce its
4 rates, from those proposed in the original Application, in the areas of residential
5 water base facility charges and water usage charges.

6 Further, all parties agree that, if approved by the Public Service Commission
7 ("Commission"), the rate design of the stipulated pass-through provision balances
8 the public interest by allowing for full purchased water and sewer cost recovery
9 and published customer notice.

10 As part of this Settlement Agreement, USSC has agreed to file with the Public
11 Service Commission a performance bond for water operations in the amount of
12 \$350,000.00 and a performance bond for sewer operations in the amount of
13 \$150,000.00.

14 As stated earlier, it is the position of ORS and USSC that this Settlement
15 Agreement is a fair, reasonable and full resolution to all issues in this proceeding
16 and I would request the Commission approve the Settlement Agreement as
17 presented today.

18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

19 A. This concludes my overview of the Settlement Agreement presented on behalf of
20 ORS and USSC.

21

Audit Exhibit SGS-1

Utilities Services of South Carolina, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended December 31, 2004
Combined Operations

Description	(1) Per Company Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) As Adjusted \$	(4) Effect of Proposed Increase \$	(5) After Proposed Increase \$
Operating Revenues					
Service Revenue - Water	2,142,888	(1,344) (A)	2,141,544	750,809 (M)	2,892,353
Service Revenue - Sewer	109,659	(2,550) (A)	107,109	70,221 (M)	177,330
Miscellaneous Revenues	80,466	0	80,466	0	80,466
Uncollectible Accounts	(30,238)	0	(30,238)	(11,002) (N)	(41,240)
Total Operating Revenues	<u>2,302,775</u>	<u>(3,894)</u>	<u>2,298,881</u>	<u>810,028</u>	<u>3,108,909</u>
Operating Expenses					
Operating & Maintenance Expenses	1,056,437	(214,713) (B)	841,724	0	841,724
General & Administrative Expenses	479,641	112,003 (C)	591,644	0	591,644
Depreciation & Amortization Expenses	208,711	99,505 (D)	308,216	0	308,216
Taxes Other Than Income	345,885	(21,661) (E)	324,224	9,217 (O)	333,441
Income Taxes	(21,019)	21,019 (F)	0	268,366 (P)	268,366
Interest on Customer Deposits	0	3,672 (G)	3,672	0	3,672
Total Operating Expenses	<u>2,069,655</u>	<u>(175)</u>	<u>2,069,480</u>	<u>277,583</u>	<u>2,347,063</u>
Total Operating Income	<u>233,120</u>	<u>(3,719)</u>	<u>229,401</u>	<u>532,445</u>	<u>761,846</u>
Customer Growth - Audit Exhibit SGS - 7	0	1,371	1,371	2,514	3,885
Net Income for Return	<u>233,120</u>	<u>(2,348)</u>	<u>230,772</u>	<u>534,959</u>	<u>765,731</u>
Original Cost Rate Base					
Gross Plant in Service	8,367,148	715,798 (H)	9,082,946	0	9,082,946
Accumulated Depreciation	(719,490)	(299,368) (I)	(1,018,858)	0	(1,018,858)
Net Plant in Service	<u>7,647,658</u>	<u>416,430</u>	<u>8,064,088</u>	<u>0</u>	<u>8,064,088</u>
Cash Working Capital	192,010	(12,839) (J)	179,171	0	179,171
Water Service Corporation - Rate Base	55,561	0	55,561	0	55,561
Plant Acquisition Adjustment	1,246,257	(1,246,257) (K)	0	0	0
Contributions in Aid of Construction	(28,686)	0	(28,686)	0	(28,686)
Accumulated Deferred Income Taxes	(521,562)	0	(521,562)	0	(521,562)
Customer Deposits	(104,907)	(9,429) (L)	(114,336)	0	(114,336)
Total Rate Base	<u>8,486,331</u>	<u>(852,095)</u>	<u>7,634,236</u>	<u>0</u>	<u>7,634,236</u>
Return on Rate Base	<u>2.75%</u>		<u>3.02%</u>		<u>10.03%</u>

Audit Exhibit SGS-2

Utilities Services of South Carolina, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended December 31, 2004
Water Operations

Description	(1) Per Company Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) As Adjusted \$	(4) Effect of Proposed Increase \$	(5) After Proposed Increase \$
Operating Revenues					
Service Revenue - Water	2,142,888	(1,344) (A)	2,141,544	750,809 (M)	2,892,353
Miscellaneous Revenues	77,618	0	77,618	0	77,618
Uncollectible Accounts	(28,802)	0	(28,802)	(10,061) (N)	(38,863)
Total Operating Revenues	2,191,704	(1,344)	2,190,360	740,748	2,931,108
Operating Expenses					
Operating & Maintenance Expenses	984,221	(216,997) (B)	767,224	0	767,224
General & Administrative Expenses	454,365	105,515 (C)	559,880	0	559,880
Depreciation & Amortization Expenses	202,280	91,630 (D)	293,910	0	293,910
Taxes Other Than Income	327,754	(20,473) (E)	307,281	8,428 (O)	315,709
Income Taxes	(20,021)	20,021 (F)	0	257,878 (P)	257,878
Interest on Customer Deposits	0	3,478 (G)	3,478	0	3,478
Total Operating Expenses	1,948,599	(16,826)	1,931,773	266,306	2,198,079
Total Operating Income	243,105	15,482	258,587	474,442	733,029
Customer Growth - Audit Exhibit SGS - 7	0	1,371	1,371	2,514	3,885
Net Income for Return	243,105	16,853	259,958	476,956	736,914
Original Cost Rate Base					
Gross Plant in Service	8,144,078	624,975 (H)	8,769,053	0	8,769,053
Accumulated Depreciation	(713,900)	(283,591) (I)	(997,491)	0	(997,491)
Net Plant in Service	7,430,178	341,384	7,771,562	0	7,771,562
Cash Working Capital	179,823	(13,935) (J)	165,888	0	165,888
Water Service Corporation - Rate Base	52,635	0	52,635	0	52,635
Plant Acquisition Adjustment	1,180,579	(1,180,579) (K)	0	0	0
Contributions in Aid of Construction	(28,686)	0	(28,686)	0	(28,686)
Accumulated Deferred Income Taxes	(493,677)	0	(493,677)	0	(493,677)
Customer Deposits	(99,378)	(8,932) (L)	(108,310)	0	(108,310)
Total Rate Base	8,221,474	(862,062)	7,359,412	0	7,359,412
Return on Rate Base	2.96%		3.53%		10.01%

Audit Exhibit SGS-3

Utilities Services of South Carolina, Inc.
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended December 31, 2004
Sewer Operations

Description	(1) Per Company Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) As Adjusted \$	(4) Effect of Proposed Increase \$	(5) After Proposed Increase \$
Operating Revenues					
Service Revenue - Sewer	109,659	(2,550) (A)	107,109	70,221 (M)	177,330
Miscellaneous Revenues	2,848	0	2,848	0	2,848
Uncollectible Accounts	(1,436)	0	(1,436)	(941) (N)	(2,377)
Total Operating Revenues	111,071	(2,550)	108,521	69,280	177,801
Operating Expenses:					
Operating & Maintenance Expenses	72,216	2,284 (B)	74,500	0	74,500
General & Administrative Expenses	25,276	6,488 (C)	31,764	0	31,764
Depreciation & Amortization Expenses	6,431	7,875 (D)	14,306	0	14,306
Taxes Other Than Income	18,131	(1,188) (E)	16,943	789 (O)	17,732
Income Taxes	(998)	998 (F)	0	10,488 (P)	10,488
Interest on Customer Deposits	0	194 (G)	194	0	194
Total Operating Expenses	121,056	16,651	137,707	11,277	148,984
Total Operating Income	(9,985)	(19,201)	(29,186)	58,003	28,817
Customer Growth - Audit Exhibit SGS - 7	0	0	0	0	0
Net Income for Return	(9,985)	(19,201)	(29,186)	58,003	28,817
Original Cost Rate Base					
Gross Plant in Service	223,070	90,823 (H)	313,893	0	313,893
Accumulated Depreciation	(5,590)	(15,777) (I)	(21,367)	0	(21,367)
Net Plant in Service	217,480	75,046	292,526	0	292,526
Cash Working Capital	12,187	1,096 (J)	13,283	0	13,283
Water Service Corporation - Rate Base	2,926	0	2,926	0	2,926
Plant Acquisition Adjustment	65,678	(65,678) (K)	0	0	0
Contributions in Aid of Construction	0	0	0	0	0
Accumulated Deferred Income Taxes	(27,885)	0	(27,885)	0	(27,885)
Customer Deposits	(5,529)	(497) (L)	(6,026)	0	(6,026)
Total Rate Base	264,857	9,967	274,824	0	274,824
Return on Rate Base	-3.77%		-10.62%		10.49%

Audit Exhibit SGS-4

**Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2004**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<u>(A) Service Revenues - As Adjusted</u>			
1. ORS and USSC propose to adjust operating revenues to reflect current customers at current rates.			
Per ORS	(3,894)	(1,344)	(2,550)
Per USSC	(3,894)	(1,344)	(2,550)
Total Service Revenues - Per ORS	(3,894)	(1,344)	(2,550)
<u>(B) Operating and Maintenance Expenses</u>			
2. ORS and USSC propose to annualize operators' salaries. ORS annualized salaries using the actual wage increase as of 7/1/2005, excluding bonuses. USSC annualized salaries as of 12/31/04 for a 3.5% increase, excluding bonuses.			
Per ORS	92,372	87,504	4,868
Per USSC	125,701	119,103	6,598
3. USSC proposes to increase Purchased Power expense by 5.284% to reflect inflation in accordance with the Bureau of Labor Statistic's Consumer Price Index for Water and Sewerage Maintenance. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions.			
Per ORS	0	0	0
Per USSC	7,407	6,767	640
4. ORS proposes to remove purchased water costs for pass-through treatment with the exception of six subdivisions that are not included in the pass-through. USSC proposes to remove total purchased water expense for pass-through treatment to its customers. The costs of purchased water would be passed directly to the customer without any mark-up of the price.			
Per ORS	(258,060)	(258,060)	0
Per USSC	(316,770)	(316,770)	0
5. USSC proposes to increase Maintenance and Repair expense by 5.284% to reflect inflation in accordance with the Bureau of Labor Statistic's Consumer Price Index for Water and Sewerage Maintenance. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions.			
Per ORS	0	0	0
Per USSC	13,715	11,678	2,037

Audit Exhibit SGS-4

Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2004

Description	Combined \$	Water \$	Sewer \$
6. USSC proposes to increase Maintenance Testing expense by 5.284% to reflect inflation in accordance with Bureau of Labor Statistic's Consumer Price Index for Water and Sewerage Maintenance. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions.			
Per ORS	0	0	0
Per USSC	2,091	1,738	353
7. USSC proposes to increase Meter Reading expense by 5.284% to reflect inflation in accordance with Bureau of Labor Statistic's Consumer Price Index for Water and Sewerage Maintenance. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions.			
Per ORS	0	0	0
Per USSC	949	949	0
8. USSC proposes to increase Chemicals expense by 5.284% to reflect inflation in accordance with Bureau of Labor Statistic's Consumer Price Index for Water and Sewerage Maintenance. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions.			
Per ORS	0	0	0
Per USSC	737	698	39
9. ORS and USSC propose to increase transportation expense for two new employees.			
Per ORS	9,287	8,798	489
Per USSC	9,287	8,798	489
10. ORS and USSC propose to increase Operating Expense Charged to Plant to reflect the increase in salaries, taxes, and benefits for operators. ORS and USSC allocated this amount based on USSC's capitalization ratio of 50.95%.			
Per ORS	(58,312)	(55,239)	(3,073)
Per USSC	(82,719)	(78,360)	(4,359)
Total Operating and Maintenance Expenses - Per ORS	(214,713)	(216,997)	2,284

Audit Exhibit SGS-4

Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2004

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<u>(C) General and Administrative Expenses</u>			
11. ORS and USSC propose to annualize office salaries. ORS annualized salaries using the pay increase as of 7/1/2005, excluding bonuses. USSC annualized salaries as of 12/31/04 for a 3.5% increase, excluding bonuses.			
Per ORS	12,790	12,116	674
Per USSC	11,880	11,259	621
12. USSC proposes to increase Office Supplies and Other Office expense by 5.284% to reflect inflation in accordance with Bureau of Labor Statistic's Consumer Price Index for Water and Sewerage Maintenance. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions.			
Per ORS	0	0	0
Per USSC	6,118	5,795	323
13. ORS and USSC propose to amortize current rate case expenses over a three-year period. ORS proposes to amortize rate case expenses as of November 2005 of \$160,458 over a two-year period for an adjustment of \$80,229. USSC proposes to amortize total estimated rate case expenses of \$325,569 over a three-year period for an adjustment of \$108,523.			
Per ORS	80,229	75,415	4,814
Per USSC	108,523	102,804	5,719
14. ORS and USSC propose to annualize Pension and Other Benefits expense associated with the wage increase.			
Per ORS	18,984	17,984	1,000
Per USSC	23,036	21,828	1,208
15. USSC proposes to increase Rent expense by 5.284% to reflect inflation in accordance with Bureau of Labor Statistic's Consumer Price Index for Water and Sewerage Maintenance. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions.			
Per ORS	0	0	0
Per USSC	758	718	40

Audit Exhibit SGS-4

Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2004

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
16. USSC proposes to increase Insurance expense by 5.284% to reflect inflation in accordance with Bureau of Labor Statistic's Consumer Price Index for Water and Sewerage Maintenance. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions.			
Per ORS	0	0	0
Per USSC	3,964	3,755	209
17. USSC proposes to increase Office Utilities expense by 5.284% to reflect inflation in accordance with Bureau of Labor Statistic's Consumer Price Index for Water and Sewerage Maintenance. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions.			
Per ORS	0	0	0
Per USSC	1,814	1,719	95
18. USSC proposes to increase Miscellaneous expense by 5.284% to reflect inflation in accordance with Bureau of Labor Statistic's Consumer Price Index for Water and Sewerage Maintenance. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions.			
Per ORS	0	0	0
Per USSC	1,110	1,051	59
<u>Total General and Administrative Expenses-Per ORS</u>	112,003	105,515	6,488

(D) Depreciation and Amortization Expenses

19. ORS and USSC propose to annualize Depreciation expense using adjusted plant in service as of November 2005. See Audit Exhibit SGS-5 for the details of the adjustment.

Per ORS	9,614	7,137	2,477
Per USSC	14,990	12,489	2,501

Audit Exhibit SGS-4

**Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2004**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
20. ORS and USSC propose to adjust the Amortization of Contributions In of Aid Construction as of December 31, 2004.			
Per ORS	(82)	(82)	0
Per USSC	274	274	0
21. ORS and USSC propose to adjust for the amortization of the Plant Acquisition Adjustment. ORS's Plant Acquisition Adjustment was computed using ORS's restated plant and accumulated depreciation at acquisition. The amortization amounted to \$115,937 less the per book amount of \$25,964 for an adjustment of \$89,973. See Audit Exhibit SGS - 12 for details. USSC proposes an amortization based on its restated accumulated depreciation using a 1.50% depreciation rate.			
Per ORS	89,973	84,575	5,398
Per USSC	(24,175)	(22,901)	(1,274)
<u>Total Depreciation and Amortization Expenses - Per ORS</u>	<u>99,505</u>	<u>91,630</u>	<u>7,875</u>

(E) Taxes Other Than Income

22. ORS and USSC propose to remove 2003 real estate taxes from the test year expenses.			
Per ORS	(27,096)	(25,668)	(1,428)
Per USSC	(27,096)	(25,668)	(1,428)
23. ORS proposes to remove 2003 personal property taxes from the test year expenses.			
Per ORS	(9,495)	(8,995)	(500)
Per USSC	0	0	0
24. ORS adjusted payroll taxes for the annualized payroll adjustment based on the wage increase as of 7/1/2005. USSC proposes to annualize payroll taxes based on wages as of 12/31/2004.			
Per ORS	7,406	7,016	390
Per USSC	10,880	10,309	571

Audit Exhibit SGS-4

**Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2004**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
25. ORS proposes to adjust utility/commission taxes and gross receipts taxes for the as adjusted revenue.			
Per ORS	7,524	7,174	350
Per USSC	0	0	0
<u>Total Taxes Other Than Income</u>	<u>(21,661)</u>	<u>(20,473)</u>	<u>(1,188)</u>

(F) Income Taxes - As Adjusted

26. ORS and USSC propose to compute income taxes after accounting and pro forma adjustments using a state rate of 5% and a federal rate of 34%. See Audit Exhibit SGS-6 for details.

Per ORS	<u>21,019</u>	<u>20,021</u>	<u>998</u>
Per USSC	<u>(57,280)</u>	<u>110,855</u>	<u>(168,135)</u>

(G) Interest on Customer Deposits

27. ORS proposes to include annualized interest on customer deposits using the test year ending balance and the most recently PSC approved interest rate of 3.50%.

Per ORS	<u>3,672</u>	<u>3,478</u>	<u>194</u>
Per USSC	<u>0</u>	<u>0</u>	<u>0</u>

(H) Gross Plant In Service

28. ORS proposes to restate plant in service. ORS proposes to remove organization costs previously carried on the books of the acquired companies.

Per ORS	(421,361)	(399,156)	(22,205)
Per USSC	0	0	0

29. ORS and USSC propose to include plant additions and capitalized time after the test year to November 2005.

Per ORS	685,190	631,301	53,889
Per USSC	510,856	491,610	19,246

Audit Exhibit SGS-4

**Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2004**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
30. ORS and USSC propose to include plant for work orders completed as of September 2005.			
Per ORS	848,978	789,890	59,088
Per USSC	1,553,551	1,441,314	112,237
31. ORS and USSC propose to adjust for plant retirements associated with the completed work orders as of September 2005. Adjustments to Accumulated Depreciation are reflected in Adjustment No. 35.			
Per ORS	(301,242)	(301,242)	0
Per USSC	(413,839)	(413,839)	0
32. ORS and USSC propose to remove an elevated storage tank which is no longer used by the Company. ORS removes net book value of \$75,053 (\$102,188 for plant less \$27,134 accumulated depreciation). USSC also removes the net book value amount of \$110,563.			
Per ORS	(75,053)	(75,053)	0
Per USSC	(110,563)	(110,563)	0
33. ORS and USSC propose an extraordinary retirement of wells, structures, and storage tanks. ORS removes the net book value of \$21,677 (\$30,054 for plant less \$8,377 for accumulated depreciation). USSC removes the net book value of (\$30,293).			
Per ORS	(21,677)	(21,677)	0
Per USSC	(30,293)	(30,293)	0
34. ORS and USSC propose to adjust for excess book value which represents an increase in USSC's paid in capital over the investment in the utility.			
Per ORS	963	912	51
Per USSC	963	912	51
Total Gross Plant In Service - Per ORS	715,798	624,975	90,823

Audit Exhibit SGS-4

**Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2004**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<u>(I) Accumulated Depreciation</u>			
35. ORS proposes to adjust accumulated depreciation for the additional plant and capitalized time. ORS also proposes to restate accumulated depreciation using rates recommended by ORS's Water and Wastewater Department for the acquired companies and to adjust accumulated depreciation for the test year at the 1.50% depreciation rate. See Audit Exhibit SGS - 13. USSC proposes to adjust accumulated depreciation for planned additional capital investments, invoiced and estimated additions, capitalized time and the restatement of accumulated depreciation to a 1.5% depreciation rate.			
Per ORS	<u>(299,368)</u>	<u>(283,591)</u>	<u>(15,777)</u>
Per USSC	<u>382,333</u>	<u>384,305</u>	<u>(1,972)</u>
<u>(J) Cash Working Capital</u>			
36. ORS and USSC propose to adjust Cash Working Capital based on pro forma expenses.			
Per ORS	<u>(12,839)</u>	<u>(13,935)</u>	<u>1,096</u>
Per USSC	<u>(10,301)</u>	<u>(12,059)</u>	<u>1,758</u>
<u>(K) Plant Acquisition Adjustment</u>			
37. ORS proposes to remove the unamortized balance of (\$1,246,257) for the Plant Acquisition Adjustment from rate base. ORS does propose to allow the amortization of the Plant Acquisition Adjustment in operating expenses. This methodology allows for a sharing of the expenses between the ratepayer and USSC shareholders. USSC proposes a reduction of (\$1,131,464) to the per book Plant Acquisition Adjustment amount of 1,246,257, resulting in a Plant Acquisition Adjustment amount of \$114,793.			
Per ORS	<u>(1,246,257)</u>	<u>(1,180,579)</u>	<u>(65,678)</u>
Per USSC	<u>(1,131,464)</u>	<u>(1,071,836)</u>	<u>(59,628)</u>
<u>(L) Customer Deposits</u>			
38. ORS and USSC propose to remove Accrued Interest owed to customers for their deposits.			
Per ORS	<u>(9,429)</u>	<u>(8,932)</u>	<u>(497)</u>
Per USSC	<u>(9,429)</u>	<u>(8,932)</u>	<u>(497)</u>

Audit Exhibit SGS-4

**Utilities Services of South Carolina, Inc.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2004**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<u>(M) Service Revenues - Proposed Increase</u>			
39. ORS and USSC propose an increase in service revenues.			
Per ORS	821,030	750,809	70,221
Per USSC	821,130	750,809	70,321
<u>(N) Uncollectible Accounts - Proposed Increase</u>			
40. ORS and USSC propose to adjust Uncollectible Accounts expense for the proposed revenue.			
Per ORS	(11,002)	(10,061)	(941)
Per USSC	(11,039)	(10,097)	(942)
<u>(O) Taxes Other Than Income - Proposed Increase</u>			
41. ORS and USSC propose to adjust utility/commission tax and gross receipts taxes for the net proposed revenue.			
Per ORS	9,217	8,428	789
Per USSC	8,752	8,003	749
<u>(P) Income Taxes - Proposed Increase</u>			
42. ORS and USSC propose to adjust income taxes for the proposed increase using a state tax rate of 5% and a federal tax rate of 34%.			
Per ORS	268,366	257,878	10,488
Per USSC	659,765	65,736	594,029

Audit Exhibit SGS-5

Utilities Services of South Carolina, Inc.
Depreciation and Amortization Adjustment
Test Year Ended December 31, 2004

<u>Gross Plant</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
Gross Plant at 12-31-2004 - Per USSC	8,367,148	8,144,078	223,070
Less: Organization Costs for Acquired Companies	(421,361)	(399,155)	(22,206)
Gross Plant at 12-31-2004 - Per ORS Restatement	<u>7,945,787</u>	<u>7,744,923</u>	<u>200,864</u>
Add:			
General Ledger Additions and Capitalized Time After Test Year	685,190	631,301	53,889
Pro Forma Projects	848,978	789,890	59,088
Total Gross Plant In Service	<u>9,479,955</u>	<u>9,166,114</u>	<u>313,841</u>
Less:			
Land	(239,058)	(226,459)	(12,599)
Organization Expense	(177,153)	(163,583)	(13,570)
Franchise Fees	(6,857)	(6,857)	0
Pro forma project retirements	(301,242)	(301,242)	0
Elevated Storage Tank	(102,188)	(102,188)	0
Extraordinary Retirement	(30,054)	(30,054)	0
Computers	(156,409)	(148,166)	(8,243)
Vehicles	(299,086)	(283,324)	(15,762)
Fully Depreciated Assets (Computers Excluded)	(48,774)	(46,203)	(2,571)
Net Plant	<u>8,119,134</u>	<u>7,858,038</u>	<u>261,096</u>
Plant Depreciation @ 1.5% (66.67 years)	121,787	117,871	3,916
Computers	156,409	148,166	8,243
Less: Fully Depreciated Computers	(145,564)	(137,893)	(7,671)
Net Computers	<u>10,845</u>	<u>10,273</u>	<u>572</u>
Computer Depreciation @ 25% (4 years)	2,711	2,568	143
Vehicles	299,086	283,324	15,762
Less: Fully Depreciated Vehicles	(60,469)	(57,282)	(3,187)
Net Vehicles	<u>238,617</u>	<u>226,042</u>	<u>12,575</u>
Vehicle Depreciation @ 25% (4 years)	59,655	56,511	3,144
Excess Book Value Amortization Expense	15	14	1
Extraordinary Depreciation for Test Year	2,168	2,168	0
Annualized Depreciation Expense Allocated from WSC	3,321	3,146	175
Depreciation Expense Allocated from CWS	<u>3,059</u>	<u>2,898</u>	<u>161</u>
Total Depreciation	192,716	185,176	7,540
Less: Per Book Depreciation	(183,102)	(178,039)	(5,063)
ORS Depreciation Adjustment	<u>9,614</u>	<u>7,137</u>	<u>2,477</u>

Audit Exhibit SGS-5

**Utilities Services of South Carolina, Inc.
Depreciation and Amortization Adjustment
Test Year Ended December 31, 2004**

	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
<u>Contributions in Aid of Construction</u>			
Gross CIAC at 12-31-2004	29,077	29,077	0
CIAC Amortization @ 1.5% (66.67 years)	(436)	(436)	0
Less: Per Book Amortization of CIAC	(354)	(354)	0
ORS Amortization Adjustment	<u>(82)</u>	<u>(82)</u>	<u>0</u>
USSC Amortization Adjustment	<u>274</u>	<u>274</u>	<u>0</u>

Audit Exhibit SGS-6

**Utilities Services of South Carolina, Inc.
Computation of Income Taxes
For the Test Year Ended December 31, 2004**

	As Adjusted		
	Combined Operations	Water Operations	Sewer Operations
	\$	\$	\$
Operating Revenue As Adjusted	2,298,881	2,190,360	108,521
Less: Operating Expenses As Adjusted	<u>(2,069,480)</u>	<u>(1,931,773)</u>	<u>(137,707)</u>
Net Operating Income Before Taxes	229,401	258,587	(29,186)
Less: Annualized Interest Expense	<u>(310,732)</u>	<u>(299,546)</u>	<u>(11,186)</u>
Taxable Income - State	(81,331)	(40,959)	(40,372)
State Income Taxes @ 5%	<u>5.00%</u>	<u>5.00%</u>	<u>5.00%</u>
State Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>
Taxable Income - Federal	(81,331)	(40,959)	(40,372)
Federal Tax Rate @ 34%	<u>34.00%</u>	<u>34.00%</u>	<u>34.00%</u>
Total Federal Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>
Total Federal and State Income Taxes	0	0	0
Less: Income Taxes Per Book	<u>(21,019)</u>	<u>(20,021)</u>	<u>(998)</u>
Adjustment	<u>21,019</u>	<u>20,021</u>	<u>998</u>

	After Proposed Increase		
	Combined Operations	Water Operations	Sewer Operations
Operating Revenue After Proposed Increase	3,108,909	2,931,108	177,801
Operating Expenses After Proposed Increase	<u>2,078,697</u>	<u>1,940,201</u>	<u>138,496</u>
Net Operating Income Before Taxes	1,030,212	990,907	39,305
Less: Annualized Interest Expense	<u>(310,732)</u>	<u>(299,546)</u>	<u>(11,186)</u>
Taxable Income - State	719,480	691,361	28,119
State Income Taxes @ 5%	<u>35,974</u>	<u>34,568</u>	<u>1,406</u>
Taxable Income - Federal	683,506	656,793	26,713
Federal Income Taxes - @ 34%	<u>232,392</u>	<u>223,310</u>	<u>9,082</u>
Total State and Federal Income Taxes	268,366	257,878	10,488
Less: Income Taxes As Adjusted	<u>0</u>	<u>0</u>	<u>0</u>
Adjustment	<u>268,366</u>	<u>257,878</u>	<u>10,488</u>

Audit Exhibit SGS-7

**Utilities Services of South Carolina, Inc.
Customer Growth Computation
Test Year Ended December 31, 2004**

Combined Operations:		(1)	(2)	(3)
<u>Description</u>		<u>As Adjusted</u>	<u>Effect of Proposed Increase</u>	<u>After Increase</u>
Water Customer Growth		\$ 1,371	\$ 2,514	\$ 3,885
Sewer Customer Growth		0	0	0
Combined Customer Growth		1,371	2,514	3,885
Number of Customers:				
Beginning	7,105			
Ending	7,178			
Average	7,142			
		Formula:		
		Ending - Average	=	36
		Average	=	7,142
			=	0.50%
Water Operations:				
Net Operating Income		258,587	474,442	733,029
Growth Factor		0.53%	0.53%	0.53%
Customer Growth		1,371	2,514	3,885
Number of Customers:				
Beginning	6,730			
Ending	6,802			
Average	6,766			
		Formula:		
		Ending - Average	=	36
		Average	=	6,766
			=	0.53%
Sewer Operations:				
Net Operating Income		(29,186)	58,003	28,817
Growth Factor		0.00%	0.00%	0.00%
Customer Growth		0	0	0
Number of Customers:				
Beginning	375			
Ending	376			
Average	376			
		Formula:		
		Ending - Average	=	0
		Average	=	376
			=	0.00%

Note: Combined Customer Growth equals Water Customer Growth since Sewer Customer Growth equals -0-. ORS used beginning customers at 01-01-2004 and ending customers at 09-30-2005.

Audit Exhibit SGS-8

**Utilities Services of South Carolina, Inc.
Cash Working Capital Allowance
For the Test Year Ended December 31, 2004**

	Combined Operations	Water Operations	Sewer Operations
	\$	\$	\$
Operating and Maintenance - As Adjusted	841,724	767,224	74,500
General and Administrative - As Adjusted	591,644	559,880	31,764
Total Expenses for Computation	1,433,368	1,327,104	106,264
45-Day Allowance (1/8 Rate)	12.50%	12.50%	12.50%
Computed Cash Working Capital - As Adjusted	179,171	165,888	13,283
Cash Working Capital - Per Books	192,010	179,823	12,187
Cash Working Capital Adjustment - ORS	(12,839)	(13,935)	1,096
Cash Working Capital Adjustment - USSC	(10,301)	(12,059)	1,758

Utilities Services of South Carolina, Inc.
Return On Common Equity
Capital Structure at December 31, 2004

Description	Capital Structure	Ratio	Rate Base	Combined			Income For Return	After Proposed Increase			Income For Return
				As Adjusted	Embedded Cost/Return	Overall Cost/Return		As Adjusted	Embedded Cost/Return	Overall Cost/Return	
		%	\$	%	%	%	\$	%	%	%	\$
Long-Term Debt	112,803,215	55.91%	4,268,301	7.28%	7.28%	4.07%	310,732	4.268,301	7.28%	4.07%	310,732
Common Equity	88,963,597	44.09%	3,365,935	-2.38%	-2.38%	-1.05%	(79,960)	3,365,935	13.52%	5.96%	454,999
Totals	201,766,812	100.00%	7,634,236			3.02%	230,772	7,634,236		10.03%	765,731

Description	Capital Structure	Ratio	Rate Base	Water			Income For Return	After Proposed Increase			Income For Return
				As Adjusted	Embedded Cost/Return	Overall Cost/Return		As Adjusted	Embedded Cost/Return	Overall Cost/Return	
		%	\$	%	%	%	\$	%	%	%	\$
Long-Term Debt	112,803,215	55.91%	4,114,647	7.28%	7.28%	4.07%	299,546	4,114,647	7.28%	4.07%	299,546
Common Equity	88,963,597	44.09%	3,244,765	-1.22%	-1.22%	-0.54%	(39,588)	3,244,765	13.48%	5.94%	437,368
Totals	201,766,812	100.00%	7,359,412			3.53%	259,958	7,359,412		10.01%	736,914

Description	Capital Structure	Ratio	Rate Base	Sewer			Income For Return	After Proposed Increase			Income For Return
				As Adjusted	Embedded Cost/Return	Overall Cost/Return		As Adjusted	Embedded Cost/Return	Overall Cost/Return	
		%	\$	%	%	%	\$	%	%	%	\$
Long-Term Debt	112,803,215	55.91%	153,654	7.28%	7.28%	4.07%	11,186	153,654	7.28%	4.07%	11,186
Common Equity	88,963,597	44.09%	121,170	-33.32%	-33.32%	-14.69%	(40,372)	121,170	14.55%	6.42%	17,631
Totals	201,766,812	100.00%	274,824			-10.62%	(29,186)	274,824		10.49%	28,817

Used Capital Structure of Utilities, Inc. and Subsidiaries @ 12-31-2004

Audit Exhibit SGS-10

**Utilities Services of South Carolina, Inc.
Income Statement
Test Year Ended December 31, 2004**

	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<u>Operating Revenues</u>			
Service Revenues - Water	2,142,888	2,142,888	0
Service Revenues - Sewer	109,659	0	109,659
Miscellaneous Revenues	80,466	77,618	2,848
Uncollectible Accounts	(30,238)	(28,802)	(1,436)
<u>Total Operating Revenues</u>	<u>2,302,775</u>	<u>2,191,704</u>	<u>111,071</u>
<u>Operating Expenses</u>			
<u>Maintenance Expenses</u>			
Salaries and Wages	479,180	453,927	25,253
Purchased Power	140,181	128,071	12,110
Purchased Sewer & Water	316,770	316,770	0
Maintenance and Repair	259,549	221,003	38,546
Maintenance Testing	39,576	32,898	6,678
Meter Reading	17,968	17,968	0
Chemicals	13,952	13,217	735
Transportation	65,009	61,583	3,426
Operating Exp. Charged to Plant	(304,457)	(288,412)	(16,045)
Outside Services - Other	28,709	27,196	1,513
<u>Total</u>	<u>1,056,437</u>	<u>984,221</u>	<u>72,216</u>
<u>General Expenses</u>			
Salaries and Wages	112,917	106,966	5,951
Office Supplies & Other Office Exp.	115,776	109,675	6,101
Regulatory Commission Exp.	21	20	1
Pension & Other Benefits	106,211	100,614	5,597
Rent	14,350	13,594	756
Insurance	75,020	71,066	3,954
Office Utilities	34,334	32,525	1,809
Miscellaneous	21,012	19,905	1,107
<u>Total</u>	<u>479,641</u>	<u>454,365</u>	<u>25,276</u>
Depreciation	183,102	178,039	5,063
Extraordinary Retirement	25,963	24,595	1,368
Taxes Other Than Income	345,885	327,754	18,131
Income Taxes - Federal	(21,166)	(20,161)	(1,005)
Income Taxes - State	147	140	7
Amortization of ITC	0	0	0
Amortization of CIAC	(354)	(354)	0
<u>Total</u>	<u>533,577</u>	<u>510,013</u>	<u>23,564</u>
<u>Total Operating Expenses</u>	<u>2,069,655</u>	<u>1,948,599</u>	<u>121,056</u>
<u>Net Operating Income</u>	<u>233,120</u>	<u>243,105</u>	<u>(9,985)</u>
<u>Net Income for Return</u>	<u>233,120</u>	<u>243,105</u>	<u>(9,985)</u>

Audit Exhibit SGS-11

Utilities Services of South Carolina, Inc.
Balance Sheet
December 31, 2004

	\$	\$	\$
	<u>Assets</u>		
Plant In Service			
Water	7,811,997		
Sewer	204,472		
Total		8,016,469	
Accumulated Depreciation - Water	(1,614,644)		
Accumulated Depreciation - Sewer	(25,279)		
Total		<u>(1,639,923)</u>	
Net Utility Plant			6,376,546
Plant Acquisition Adjustment - Water	1,180,579		
Plant Acquisition Adjustment - Sewer	65,678		
Total			1,246,257
Construction Work In Process - Water	625,872		
Construction Work In Process - Sewer	538		
Total			626,410
Current Assets			
Cash	0		
Accounts Receivable - Net	374,157		
Other Current Assets	4,133		
Total			378,290
Deferred Charges			35,949
<u>Total Assets</u>			<u><u>8,663,452</u></u>
	<u>Liabilities and Other Credits</u>		
Capital Stock and Retained Earnings			
Common Stock and Paid In Capital	5,716,429		
Retained Earnings	234,902		
Total		5,951,331	
Current and Accrued Liabilities			
Accounts Payable - Trade	38,889		
Taxes Accrued	0		
Customer Deposits	104,906		
Customer Deposits - Interest	9,429		
A/P - Associated Companies	2,008,649		
Total		2,161,873	
Advances In Aid of Construction			
Water	0		
Sewer	0		
Total			0
Contributions In Aid of Construction			
Water	28,686		
Sewer	0		
Total		28,686	
Accumulated Deferred Income Tax			
Unamortized ITC	0		
Deferred Tax - Federal	520,934		
Deferred Tax - State	628		
Total		521,562	
<u>Total Liabilities and Other Credits</u>			<u><u>8,663,452</u></u>

Utilities Services of South Carolina, Inc.
Plant Restatement & Plant Acquisition Adjustment
For the Test Year Ended December 31, 2004

Date				Note # 1:		
Acquired	Description	Amount	Service Life	Depr. Rate	Depr. Expense	Accum. Depreciation
		\$	years	%	\$	\$
<u>US UTILITIES</u>						
25-Aug-95	MQ Computer System	2,041	6	16.67%	0	2,041
25-Aug-95	Computer System	1,310	6	16.67%	0	1,310
25-Aug-95	MQ Computer System	2,862	6	16.67%	0	2,862
03-Oct-95	Plotter Printer	8,503	6	16.67%	0	8,503
05-Oct-95	Computer	2,114	6	16.67%	0	2,114
10-Dec-95	MQ Computer	1,102	6	16.67%	0	1,102
01-Mar-96	Software Program	656	6	16.67%	0	656
02-Aug-96	Pentium Computer	2,013	6	16.67%	0	2,013
08-Nov-96	Scanning Equip	679	6	16.67%	0	679
08-Nov-96	Scanning Equip	543	6	16.67%	0	543
17-Nov-96	Pentium Computer	1,695	6	16.67%	0	1,695
08-Jan-97	Hawkins Software	4,500	6	16.67%	750	4,500
21-Jan-97	AS400 System	79,286	6	16.67%	13,217	79,286
24-Jan-97	Hayes Optima Modem	255	6	16.67%	43	255
10-Jul-97	Sharp PP Laser Fax	1,076	6	16.67%	179	1,076
11-Aug-97	IBM Selectric	263	6	16.67%	44	263
30-Oct-97	Richo Fax	2,228	6	16.67%	371	2,228
09-Apr-98	Fax Machine	891	6	16.67%	149	745
21-Apr-98	Computer Equip	6,099	6	16.67%	1,017	5,085
16-Jun-98	Fax/Printer	839	6	16.67%	140	700
04-Aug-98	Computer Equipment	16,300	6	16.67%	2,717	13,585
20-Oct-98	Fax Machine	2,343	6	16.67%	391	1,955
23-Oct-98	Computer Equipment	1,079	6	16.67%	180	900
12-Nov-98	Computer Equipment	1,370	6	16.67%	228	1,140
11-Dec-98	Computer Equipment	3,046	6	16.67%	508	2,540
15-Jun-99	Computers	8,353	6	16.67%	1,392	5,568
09-Jun-00	Computer	1,143	6	16.67%	191	573
20-Jun-00	Computer	1,349	6	16.67%	225	675
20-Mar-97	Conference Table	843	15	6.67%	0	0
20-Mar-97	Light Fixtures	389	15	6.67%	0	0
06-Oct-97	2 Desks	927	15	6.67%	62	372
09-Oct-97	2 Desks	1,827	15	6.67%	122	732
01-Feb-98	Office Furniture	1,550	15	6.67%	103	515
16-Jun-98	Desk	661	15	6.67%	44	220
15-Oct-98	Office Furniture	2,480	15	6.67%	165	825
15-Nov-98	Office Furniture	4,047	15	6.67%	270	1,350
15-Dec-98	Office Furniture	687	15	6.67%	46	230
15-Jun-99	Office F&F	1,152	15	6.67%	77	308
	2 Disposed Assets	(1,232)	0	0	0	0
12-Jun-98	1998 Malibu	14,586	6	16.67%	0	0
10-Jul-98	1998 Lumina	21,500	6	16.67%	3,584	17,920
15-Jun-99	Auto	20,551	6	16.67%	3,426	13,704
	1 Disposed Asset	(14,586)	0	0	0	0
Total US UTILITIES		209,320			29,641	180,768

Note # 1: Depreciation Rates Recommended by ORS's Water and Wastewater Department

Utilities Services of South Carolina, Inc.
Plant Restatement & Plant Acquisition Adjustment
For the Test Year Ended December 31, 2004

		Note # 1:				
Date		Service	Depr.	Depr.	Accum.	
Acquired	Description	Life	Rate	Expense	Depreciation	
		Amount	years	%	\$	\$
<u>UTILITIES OF SOUTH CAROLINA</u>						
01-Oct-84	Type Writer	259	6	16.67%	0	259
17-Feb-97	Computers	735	6	16.67%	123	735
01-Jun-97	Computers	1,477	6	16.67%	246	1,477
01-Jan-85	Land	10,185	0	0	0	0
01-Jan-85	Land	1,000	0	0	0	0
20-Dec-94	Land	681	0	0	0	0
30-Jun-97	Land	1,666	0	0	0	0
30-Jun-78	Tanks & Standpipes	43,144	35	2.86%	1,234	30,850
01-Jan-80	Water System	172,912	45	2.22%	3,839	88,297
30-Jun-80	Wells Crest	28,518	30	3.33%	950	21,850
30-Jun-80	Mains Crest	172,222	35	2.86%	4,926	113,298
01-Jul-80	Water Meters	1,634	20	5.00%	0	1,634
01-Dec-84	Water System	2,250	45	2.22%	50	950
01-Dec-84	Water System	2,250	45	2.22%	50	950
01-May-85	Water System	22,500	45	2.22%	500	9,000
01-May-85	Sewer System	22,500	45	2.22%	500	9,000
01-Oct-86	Water Meters	1,200	20	5.00%	60	1,020
01-Oct-86	Radio	3,350	10	10.00%	0	3,350
01-Mar-87	Sewer Equip	2,917	15	6.67%	0	2,917
01-May-87	Water System	1,000	45	2.22%	22	352
01-May-87	Lawn Mowers	452	12	8.33%	0	452
01-Sep-87	Water System	3,500	45	2.22%	78	1,248
01-Jan-90	5HP Motor	943	20	5.00%	47	611
01-Mar-90	Water Meters	425	20	5.00%	21	273
01-Mar-90	Control Box	173	25	4.00%	7	91
01-May-90	RockWLMeter	199	66.67	1.50%	3	39
01-Jul-90	3HP Control Box	219	25	4.00%	9	117
01-Oct-90	Davis Meters	1,450	20	5.00%	73	949
01-Dec-90	Meters	391	20	5.00%	20	260
01-Mar-91	Daves Water System	148,675	45	2.22%	3,301	39,612
01-Sep-91	Darby Well	1,219	30	3.33%	41	492
01-Dec-91	Stewart 2 Way	604	20	5.00%	30	360
01-Dec-91	Darby Pump	1,804	20	5.00%	90	1,080
01-Feb-92	Water Meter	350	20	5.00%	18	198
01-Apr-92	Pump Motor	734	20	5.00%	37	407
01-Jul-92	Davis Water	1,073	45	2.22%	24	264
01-Sep-92	Control Box	264	25	4.00%	11	121
01-Jan-93	Pump & Motor	739	20	5.00%	37	370
01-Feb-93	Chem Feeders	1,077	8	12.50%	0	1,077
01-Mar-93	Meters	3,673	20	5.00%	184	1,840
01-Jul-93	Pump Houses	1,124	40	2.50%	28	280
01-Sep-93	Meters	1,044	25	4.00%	42	420
01-Oct-93	Meters	1,494	25	4.00%	60	600
01-Oct-93	Pump House	562	40	2.50%	14	140
01-Dec-93	Pump Houses 8	4,704	40	2.50%	118	1,180
01-Dec-93	Pump Houses 6	4,757	40	2.50%	119	1,190
01-Dec-93	Cell Phone	723	10	10.00%	72	723
01-Feb-94	Error Dep Basis	1,861	66.67	1.50%	28	252

**Utilities Services of South Carolina, Inc.
Plant Restatement & Plant Acquisition Adjustment
For the Test Year Ended December 31, 2004**

Date Acquired	Description	Amount \$	Service Life years	Note # 1:		Depr. Expense \$	Accum. Depreciation \$
				Depr. Rate %			
01-Feb-94	4 Metal Sheds	2,431	40	2.50%		61	549
01-Feb-94	Utility Bldgs	4,809	40	2.50%		120	1,080
01-Mar-94	6 Pump Houses	3,607	40	2.50%		90	810
11-Mar-94	Pump Crest	3,509	20	5.00%		175	1,575
01-Apr-94	Meters	1,545	25	4.00%		62	558
01-Apr-94	Two Way Radio	541	10	10.00%		54	486
01-Apr-94	Darby	927	30	3.33%		31	279
01-Apr-94	Two Way Radio	232	10	10.00%		23	207
01-May-94	Meters	4,970	25	4.00%		199	1,791
01-May-94	Pump	574	20	5.00%		29	261
01-May-94	Ower	1,202	66.67	1.50%		18	162
01-Jun-94	Meters	1,462	25	4.00%		58	522
01-Jul-94	Meters	4,011	25	4.00%		160	1,440
01-Jul-94	Pump	423	20	5.00%		21	189
01-Aug-94	Radio Equip	374	10	10.00%		37	333
01-Sep-94	Meters	3,362	25	4.00%		134	1,206
01-Sep-94	Farm Pond Meter	2,000	25	4.00%		80	720
01-Sep-94	Farm Pond Pumps	4,000	20	5.00%		200	1,800
01-Sep-94	Farm Pond System	750	45	2.22%		17	153
01-Oct-94	Pump 2	1,970	20	5.00%		99	891
01-Dec-94	Pump	665	20	5.00%		33	297
02-Dec-94	Pump and Motor	853	20	5.00%		43	387
20-Dec-94	Pump Houses	1,176	40	2.50%		29	261
20-Dec-94	Chemical Feeders	4,752	8	12.50%		0	4,752
20-Dec-94	2 HP Pump	1,007	20	5.00%		50	450
20-Dec-94	Utility Shed Crest	1,817	25	4.00%		73	657
15-Feb-95	HP Pump	810	20	5.00%		41	328
27-Jul-95	14 Chemical Feeders	1,401	8	12.50%		175	1,401
27-Jul-95	HP Pump	1,046	20	5.00%		52	416
31-Oct-95	6 Feeders	1,251	8	12.50%		156	1,251
23-Jan-96	Meters	864	25	4.00%		35	245
31-Mar-96	Various Pump	6,877	20	5.00%		344	2,408
01-Jan-97	2 Air Compressor	502	12	8.33%		42	252
15-Jan-97	Piping	1,629	45	2.22%		36	216
18-Jun-97	Pump & Motor	3,713	20	5.00%		186	1,116
25-Jun-97	HP Pump & Motor	675	20	5.00%		34	204
23-Jul-97	Pump & Motor	717	20	5.00%		36	216
20-Aug-97	Meters	912	25	4.00%		36	216
01-Jun-98	Water & Equipment	2,127	32	3.13%		67	335
01-Jun-98	Water Utility Plant	1,142,187	32	3.13%		35,750	178,750
03-Jun-98	Organizational Costs	40,919	0	0		0	0
01-Sep-89	1989 Chevy	15,000	6	16.67%		0	15,000
19-Nov-96	89 Chevy Truck	7,000	6	16.67%		0	7,000
30-Jun-98	Chevrolet Trucks	18,710	6	16.67%		3,119	15,595
30-Jun-98	Chevrolet Trucks	16,480	6	16.67%		2,747	13,735
06-Jul-98	Bed Liner for Truck	1,050	10	10.00%		105	525
08-Jul-98	Tool Box for Truck	1,407	10	10.00%		141	705
22-Mar-00	Vehicle	21,732	6	16.67%		3,623	10,869
01-May-00	Vehicle	21,684	6	16.67%		3,615	10,845
Total UTILITIES OF SOUTH CAROLINA		2,038,295				69,248	624,029

Utilities Services of South Carolina, Inc.
Plant Restatement & Plant Acquisition Adjustment
For the Test Year Ended December 31, 2004

Date				Note # 1:		
Acquired	Description	Amount	Service Life	Depr. Rate	Depr. Expense	Accum. Depreciation
		\$	years	%	\$	\$
<u>SOUTH CAROLINA WATER & SEWER</u>						
20-Dec-96	Machinery & Equipment	86,634	25	4.00%	3,465	24,255
30-May-97	18 Ft Trailer	1,785	6	16.67%	298	1,785
30-May-97	Ford Tractor Equip	28,285	6	16.67%	4,715	28,285
20-Dec-96	Furn & Fixtures	14,857	15	6.67%	991	6,937
20-Dec-96	Land & Land Rights	225,526	0	0	0	0
20-Dec-96	Organization & Startup Costs	380,442	0	0	0	0
20-Dec-96	Franchises	2,221	40	2.50%	56	392
20-Dec-96	Structures & Improvements	406,506	32	3.13%	12,724	89,068
20-Dec-96	Wells & Springs	145,315	30	3.33%	4,839	33,873
20-Dec-96	Supply Mains	234,819	35	2.86%	6,716	47,012
20-Dec-96	Pumping Equipment	49,684	20	5.00%	2,484	17,388
20-Dec-96	Water Treatment Equipment	106,722	22	4.55%	4,856	33,992
20-Dec-96	Dist. Reservoirs & Standpipes	615,833	37	2.70%	16,627	116,389
20-Dec-96	Transmission & Dist. Mains	840,400	43	2.33%	19,581	137,067
20-Dec-96	Services	382,461	40	2.50%	9,562	66,934
20-Dec-96	Meter & Meter Install	112,860	25	4.00%	4,514	31,598
20-Dec-96	Hydrants	9,275	45	2.22%	206	1,442
24-Feb-98	Water Util Prop	14,175	32	3.13%	444	2,220
30-Sep-98	Water Util Prop	25,919	32	3.13%	811	4,055
29-Dec-98	Water Util Prop	9,666	32	3.13%	303	1,515
31-Mar-99	Water Util Prop	63,415	32	3.13%	1,985	7,940
20-Dec-96	1995 Dodge Pickup	15,425	6	16.67%	0	15,425
20-Dec-96	1994 Dodge Pickup	11,590	6	16.67%	0	11,590
20-Dec-96	1995 Chev Pickup	13,404	6	16.67%	0	13,404
20-Dec-96	1990 Jeep Cherokee	3,683	6	16.67%	0	3,683
20-Dec-96	1991 Ford 1/2 & 3/4 Pickup	93	6	16.67%	0	93
20-Dec-96	1985 Ford E-700	283	6	16.67%	0	283
17-Jun-97	1997 X-Cab #8553	18,751	6	16.67%	3,126	18,751
17-Jun-97	1997 Worktruck #8518	16,012	6	16.67%	2,669	16,012
17-Jun-97	1997 S-10 #6951	12,393	6	16.67%	2,066	12,393
31-Mar-99	1995 Ford Explorer	22,334	6	16.67%	3,723	14,892
Total SOUTH CAROLINA WATER & SEWER		3,870,768			106,761	758,673
USSC Plant Through Acquisition as of 12/31/02		6,118,383				
<u>Assets Not Included by ORS</u>						
<u>UTILITIES OF SOUTH CAROLINA</u>						
03-Jun-98	Organizational Costs	(40,919)			0	0
<u>SOUTH CAROLINA WATER & SEWER</u>						
20-Dec-96	Organization & Startup Costs	(380,442)			0	0
ORS Plant Through Acquisition as of 12/31/02		5,697,022			205,650	1,563,470

Utilities Services of South Carolina, Inc.
Plant Restatement & Plant Acquisition Adjustment
For the Test Year Ended December 31, 2004

Exhibit "D"
Page 25 of 26

<u>Gross Plant Acquisition Adjustment - 2002</u>	ORS	USSC
	\$	\$
Plant through Acquisition (as restated)	5,697,022	6,118,383
A/D through Acquisition (as restated)	(1,563,470)	(944,725)
Net Plant at Acquisition (as restated)	<u>4,133,552</u>	<u>5,173,658</u>
 Purchase Price	 5,292,924	 5,292,924
Net Plant at Acquisition (as restated)	<u>(4,133,552)</u>	<u>(5,173,658)</u>
Plant Acquisition Adjustment (as restated) Note	<u>1,159,372</u>	<u>119,266</u>
 Plant Acquisition Adjustment (as restated)	 1,159,372	 119,266
Amortized @ 10% (10 years)	<u>10.00%</u>	<u>1.50%</u>
Amortization Expense	115,937	1,789
 Less: Per Book Amount	 <u>(25,964)</u>	 <u>(25,964)</u>
Amortization Adjustment	<u>89,973</u>	<u>(24,175)</u>

Note # 2: ORS does not propose to include the Plant Acquisition Adjustment in the Rate Base.

Audit Exhibit SGS-13

Utilities Services of South Carolina, Inc.
Plant in Service and Accumulated Depreciation - As Adjusted
Test Year Ended December 31, 2004

Restated Per ORS

	<u>Plant in Service</u>
	\$
Gross Plant in Service - Per Book (USSC)	8,367,148
Less: Organization Costs from Acquired Companies	(421,361)
Gross Plant In Service - Per ORS	7,945,787
Pro-Forma Additions (Vehicles Excluded)	605,535
Pro-Forma Vehicles	79,655
Excess Book Value	963
Work Orders Completed	848,978
Less: Pro Forma Retirements	(301,242)
Less: Extraordinary Retirement	(21,677)
Less: Elevated Storage Tank Removal	(75,053)
Total Gross Plant in Service As Adjusted - Per ORS	9,082,946

**Accumulated
Depreciation**
\$

Acquisition Assets(Vehicles Excluded)	1,581,280
Asset Additions (Vehicles & Organization Costs Excluded)	47,132
Organization	7,402
Vehicles	149,209
Pro-Forma Additions (Vehicles Excluded)	9,083
Pro-Forma Vehicles	19,914
Excess Book Value	37
Work Orders Completed	12,735
Less: Pro Forma Retirements	(301,242)
Less: Accumulated Depreciation Assoc. w/Retirements	(506,692)
Accumulated Depreciation - As Adjusted (ORS)	1,018,858
Accumulated Depreciation - Per Book (USSC)	719,490
Adjustment to Increase Accumulated Depreciation	299,368

EXHIBIT "E"
TO SETTLEMENT AGREEMENT
DOCKET NO. 2005-217-WS

UTILITIES SERVICES OF SOUTH CAROLINA, INC.

PROPOSED SCHEDULE OF RATES AND CHARGES

WATER

1. Monthly Charges
Residential

Basic Facilities Charge per single family
house, condominium, mobile home
or apartment unit: \$14.42 per unit*

Commodity Charge: \$3.91 per 1,000
gallons or 134 cft

*Residential customers with meters of 1" or larger
will be charged commercial rate

Commercial

Basic Facilities Charge
by meter size:

1"	°	\$36.06
1.5"	°	\$72.11
2"	°	\$115.38
3"	°	\$230.76
4"	°	\$360.56

Commodity Charge: \$3.91 per 1,000
gallons or 134 cft

Charges for Water Distribution Only

Where water is purchased from a government body or agency or other entity
for distribution and resale by the Company, the following rates apply:

Residential

Basic Facilities Charge per single family
house, condominium, mobile home
or apartment unit: \$14.42 per unit*

Commodity charge: \$2.24 per 1,000
gallons or 134 cft

*Residential customers with meters of 1" or larger
will be charged commercial rate

Commercial

Basic Facilities Charge
by meter size:

1"	°	\$36.06
1.5"	°	\$72.11
2"	°	\$115.38
3"	°	\$230.76
4"	°	\$360.56

Commodity charge: \$2.24 per 1,000
gallons or 134 cft

The Utility will also charge for the cost of water purchased from the government body or agency, or other entity. The charges imposed or charged by the government body or agency, or other entity providing the water supply will be charged to the Utility's affected customers on a pro rata basis without markup. Where the Utility is required by regulatory authority with jurisdiction over the Utility to interconnect to the water supply system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will also be charged to the Utility's affected customers on a pro rata basis, without markup. The Utility shall give the Commission thirty days notice of its intent to pass-through to customers purchased water charges which are higher than those in effect at the time of the Commission's approval of the within rate schedule. The Utility shall provide with such notice written documentation of an increase by the provider of purchased water justifying the increase in the amount of purchased water charges sought to be passed-through to affected customers. In the event that an increase in the amount of purchased water charges to be passed through to customers rate is found by the Commission to be so justified, USSC will then be required to give customers an additional thirty days notice before the increase in the purchased water charges to be passed through may be put into effect.

Commercial customers are those not included in the residential category above and include, but are not limited to hotels, stores, restaurants, offices, industry, etc.

The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units, which is served by a master water meter or a single water connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service

interruptions.

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter, and consumption of all units will be averaged; a bill will be calculated based on that average and the result multiplied by the number of units served by a single meter.

2. Nonrecurring Charges

Tap Fees	\$500 per SFE*
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3. Account Set-Up and Reconnection Charges

a. Customer Account Charge - for new customers only.

All Areas	\$25.00
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b. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of thirty five dollars (\$35.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-732.5. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly base facility charge for the service period they were disconnected. The reconnection fee shall also be due prior to reconnection if water service has been disconnected at the request of the customer.

4. Billing Cycle

Recurring charges will be billed monthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

5. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water system. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service, unless water supply is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving water system. In no event will the Utility be required to construct additional water supply capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding water supply capacity to the affected water system.

6. Cross Connection Inspection Fee

Any customer installing, permitting to be installed, or maintaining any cross connection between the Utility's water system and any other non-public water system, sewer or a line from any container of liquids or other substances, must install an approved back-flow prevention device in accordance with 24A S.C. Code Ann. Regs. R.61-58.7.F.2 (Supp. 2004), as may be amended from time to time. Such a customer shall annually have such cross connection inspected by a licensed certified tester and provide to Utility a copy of a written inspection report and testing results submitted by the certified tester in accordance with 24A S.C. Code Ann. Regs. R.61—58.7.F.8.(Supp. 2004), as may be amended from time to time. Said report and results must be provided by the customer to the Utility no later than June 30th of each year. Should a customer subject to these requirements fail to timely provide such report and results, Utility may arrange for inspection and testing by a licensed certified tester and add the charges incurred by the Utility in that regard to the customer's next bill.

- * A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities -- 25 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2004), as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.

SEWER

1. Monthly Charges

Residential - charge per
single-family house, condominium,
villa, or apartment unit: \$41.39 per unit

Mobile Homes: \$29.74 per unit

Commercial: \$41.39 per SFE*

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

Charge for Sewer Collection Only

When sewage is collected by the Utility and transferred to a government body or agency, or other entity, for treatment, the Utility's rates are as follows:

Residential - per single-family house,
condominium,
or apartment unit \$26.64 per unit

Commercial - per single-family
equivalent \$26.64 per SFE*

The Utility will also charge for treatment services provided by the government body or agency, or other entity. The rates imposed or charged by the government body or agency, or other, entity providing treatment will be charged to the Utility's affected customers on a pro rata basis, without markup. Where the Utility is required under the terms of a 201/208 Plan, or by other regulatory authority with jurisdiction over the Utility, to interconnect to the sewage treatment system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will be charged to the Utility's affected customers on a pro rata basis, without markup. The Utility shall give the Commission thirty days notice of its intent to pass-through to customers treatment charges which are higher than those in effect at the time of the Commission's approval of the within rate schedule. The Utility shall provide with such notice written documentation of an increase by the provider of treatment services justifying the increase in the amount of treatment charges sought to be passed-through to affected customers. In the event that an increase in the amount of treatment charges to be passed through to customers rate is found by the Commission to be so justified, USSC will then be required to give customers

an additional thirty days notice before the increase in the treatment charges to be passed through may be put into effect.

The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units, which is served by a master sewer meter or a single sewer connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

Solids Interceptor Tanks

For all customers receiving sewage collection service through an approved solids interceptor tank, the following additional charges shall apply:

A. Pumping Charge

At such time as the Utility determines through its inspection that excessive solids have accumulated in the interceptor tank, the Utility will arrange for pumping the tank and will include \$150.00 as a separate item in the next regular billing to the customer.

B. Pump Repair or Replacement Charge

If a separate pump is required to transport the customer's sewage from solids interceptor tank to the Utility's sewage collection system, the Utility will arrange to have this pump repaired or replaced as required and will include the cost of such repair or replacement and may be paid for over a one year period.

C. Visual Inspection Port

In order for a customer who uses a solids interceptor tank to receive sewage service from the Utility or to continue to receive such service, the customer shall install at the customer's expense a visual inspection port which will allow for observation of the contents of the solids interceptor tank and extraction of test samples therefrom. Failure to provide such a visual inspection port after timely notice of not less than thirty (30) days shall be just cause for interruption of service until a visual inspection port has been installed.

2. Nonrecurring Charges

Tap Fee	\$500 per SFE*
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The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a non residential customer is less than one (1). If the equivalency rating of a non residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

3. Notification, Account Set-Up and Reconnection Charges

a. Notification Fee

A fee of six dollars (\$6.00) shall be charged each customer to whom the Utility mails the notice as required by Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.

b. Customer Account Charge - for new customers only.

All Areas	\$25.00
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A one-time fee to defray the costs of initiating service. This charge will be waived if the customer also takes water service.

c. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of two hundred fifty dollars (\$250.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-532.4. Where an elder valve has been previously installed, a reconnection charge of thirty-five dollars (\$35.00) shall be due. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly service charge for the service period they were disconnected.

4. Billing Cycle

Recurring charges will be billed monthly, in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

5. Toxic and Pretreatment Effluent Guidelines

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR 403.5 and 403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

6. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable

wastewater into one of its sewer systems. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to an appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule and to comply with the guidelines and standards hereof, shall not be denied service, unless treatment capacity is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving sewer system.

In no event will the Utility be required to construct additional wastewater treatment capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding wastewater treatment capacity to the affected sewer system.

*A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Environmental Control Guidelines for Unit Contributory Loading for Domestic Wastewater Treatment Facilities --25 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2004), as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.